

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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TO: Janet Kelly, Department of Administration
Jim Lynch, Department of Transportation
Scott Seacat, Legislative Auditor
Brad Johnson, Secretary of State
Richard Oppen, Department of Environmental Quality
Mike McGrath, Attorney General

FROM: David Ewer, Budget Director, Office of Budget and Program Planning

SUBJECT: Guidelines for Fixed Costs Schedules for the 2011 Biennium Budget

The Office of Budget and Program Planning is beginning the process of developing the fixed cost allocations for the 2011 Biennium Executive Budget. These guidelines apply to the development of all fixed cost. In addition to submission of fixed costs, the Department of Administration will submit an equipment price list and the Department of Environmental Quality will submit the Energy Conservation Account repayment schedule.

Fixed Costs

For the following agencies please submit the proposed rate for the following services:

SOS: Administrative Rules, Records Management, and Microfilming Charges
DOJ: Agency Legal Services

Fixed Cost Allocations

For the following agencies please submit the fixed cost allocations for each client agency. If there is a change in the allocation method, please discuss with Mark Bruno. Please consolidate your documentation into as few files as possible, using multiple tabs within an Excel file.

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62104	Insurance	DOA
62113	Warrant Writing	DOA
62114	Payroll Service	DOA
62122	Audit	LAD
62148	SABHRS Admin costs	DOA
62174 **	Data Network	DOA
62307	Messenger Service	DOA
62527	Capitol Complex Rent	DOA
62770	Capitol Complex Grounds	DOA
62895	SWCAP	DOA

For the following agencies submit the requested adjustment factors for the following accounts:

<u>Exp. Account</u>	<u>Name</u>	<u>Administering Agency</u>
62142 **	Disk Storage Charges	DOA
62168 **	Read/Write Computer Trans	DOA
62172 **	Batch CPU Seconds	DOA
62177 **	TSO CPU Seconds	DOA
62178 **	IDMS CPU Seconds	DOA
62180 **	CICS CPU Seconds	DOA
62370 **	Telephone Equipment	DOA
62385 **	Long Distance Charge	DOA
62510	In-State Motor Pool	DOT

** ITSD Rates

ITSD is currently working on the mechanics of a new rate structure that is known as the Full Cost Maturity model. ITSD will be working closely with OBPP in the rollout of this new allocation model.

General Guidelines

OMB Circular A-87

The administering agency must assure compliance with OMB Circular A-87 requirements when developing the rates. http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html

Supporting Documentation for Rate Development

You will need to provide sufficient documentation to support your rates. The following are two key statutes.

17-7-123, MCAfees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.

17-8-101, MCA..... fees and charges for services deposited in the internal service fund type must be based upon commensurate costs. The legislative auditor, during regularly scheduled audits of state agencies, shall audit and report on the reasonableness of internal service fund type fees and charges and on the fund equity balances..... The payment of funds into an internal service fund must be authorized by law.

Remember, rate increases by administering agencies will impose budget constraints on the other state agencies.

Give a general description of service(s), a projection of demand for each service, a projection of the rate, and the rate methodology.

When building your analytical reports please include FY 2006 through FY 2011, revenue, expenses, and year-end working capital balance.

- For FY 2008 include estimated expenses through fiscal year end at second level. If your actual expenditures are materially different at fiscal year end closing you will need to resubmit.
- For FY 2009 projected expenses including direct costs and a "fair share" allocation of indirect costs at second level. When projecting personal services, include the number of current level FTE without vacancies and use the October 2009 pay plan amounts for each year.
- Calculate FY 2010 and FY 2011 operating expenses and rates using FY 2008 expenses and zero inflation.

If there are major objects of expenditure, which are expected to increase/decrease by amounts significantly different than the 0% factor, identify the cost assumptions and provide supporting documentation.

Propose a rate structure by service with and without decision packages.

Be able to break new funding requests into decision packages (both PL and NP) that show how it will affect rates.

- For example, a 10% increase in elevator service contracts equals a 5 cent square foot increase in rental rates.

Rate impact was a major issue last session, so please ensure that you have documented your increases for your decision packages and that you show the effect on the rates.

Working Capital

Working capital balance is the cash and/or cash equivalents minus short-term liabilities. Working capital reserves are analyzed in determining the rate. At the end of the 2009 biennium, projected working capital reserves may not exceed 60 days average daily expenses, unless a different number of days have received federal approval.

A-87....."Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases....."

Segregation of "Service Categories" & Inclusion of All Services Within a Category

Account for all service categories, regardless of whether there are separate accounting entities. A service category is defined as a set of closely related services (two or more). The policy for this requirement is that intra-governmental services should be managed as a cooperative enterprise. The "customers" for one service category should not subsidize another unless such subsidies have been explicitly considered in the policy-making process and are justified from the perspective of the state enterprise.

Due Date

All requested information must be emailed to Mark Bruno by July 7, 2008.

Next Steps -- Dog Days of Summer

The OBPP will analyze these schedules and rates in July. On August 4th, OBPP will host a Fixed Cost Workshop for agencies to discuss and question the service provider regarding these rates. Please begin preparing a presentation for this dialogue.